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TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

<b>RECEIVED</b> DEPT. OF TREASURY	<b>PROPOSED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION</b>
✓ AUG - 6 2004	Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of North Allis	<b>County</b> Presque Isle
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> July 19, 2004	<b>Date Accountant Report Submitted to State:</b> July 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

July 19, 2004

To the Township Board  
Township of North Allis  
Presque Isle County, Michigan

We have audited the accompanying general purpose financial statements of the Township of North Allis, Presque Isle County, Michigan, as of March 31, 2004, and for the year then ended as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of North Allis' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of North Allis, Presque Isle County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of North Allis, Presque Isle County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Agency</u>		
<u>Assets</u>				
Cash in bank	132 900 06	221 80	-	133 121 86
Taxes receivable	2 426 57	-	-	2 426 57
Due from other funds	221 80	-	-	221 80
Land and improvements	-	-	25 539 45	25 539 45
Buildings and improvements	-	-	10 656 00	10 656 00
Equipment	-	-	6 755 00	6 755 00
Total Assets	<u>135 548 43</u>	<u>221 80</u>	<u>42 950 45</u>	<u>178 720 68</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	221 80	-	221 80
Total liabilities	<u>-</u>	<u>221 80</u>	<u>-</u>	<u>221 80</u>
Fund equity:				
Investment in general fixed assets	-	-	42 950 45	42 950 45
Fund balances:				
Unreserved:				
Undesignated	135 548 43	-	-	135 548 43
Total fund equity	<u>135 548 43</u>	<u>-</u>	<u>42 950 45</u>	<u>178 498 88</u>
Total Liabilities and Fund Equity	<u>135 548 43</u>	<u>221 80</u>	<u>42 950 45</u>	<u>178 720 68</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

	<u>Governmental Fund Type</u>
	<u>General</u>
Revenues:	
Property taxes	17 234 97
Other taxes	5 267 75
State revenue sharing	42 245 00
Charges for services:	
Tax collection fees	6 252 55
Interest	1 534 07
Miscellaneous	<u>140 88</u>
Total revenues	<u>72 675 22</u>
Expenditures:	
Legislative:	
Township Board	8 865 89
General government:	
Supervisor	5 157 60
Elections	36 00
Assessor	5 330 00
Clerk	5 547 72
Board of Review	1 231 06
Treasurer	8 000 55
Building and grounds	1 185 96
Cemetery	1 659 58
Public safety:	
Fire protection	10 165 53
Ambulance	9 883 56
Public works:	
Highways and streets	1 000 00
Capital outlay	<u>1 276 00</u>
Total expenditures	<u>59 339 45</u>
Excess of revenues over expenditures	13 335 77
Fund balance, April 1	<u>122 212 66</u>
Fund Balance, March 31	<u><u>135 548 43</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND**      **EXHIBIT C**  
Year Ended March 31, 2004

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	11 800 00	17 234 97	5 434 97
Other taxes	5 266 00	5 267 75	1 75
State revenue sharing	33 000 00	42 245 00	9 245 00
Charges for services:			
Tax collection fees	1 750 00	6 252 55	4 502 55
Interest	1 775 00	1 534 07	(240 93)
Miscellaneous	<u>171 00</u>	<u>140 88</u>	<u>(30 12)</u>
Total revenues	<u>53 762 00</u>	<u>72 675 22</u>	<u>18 913 22</u>
Expenditures:			
Legislative:			
Township Board	12 205 00	8 865 89	(3 339 11)
General government:			
Supervisor	5 380 00	5 157 60	(222 40)
Elections	1 150 00	36 00	(1 114 00)
Assessor	5 800 00	5 330 00	(470 00)
Clerk	7 920 00	5 547 72	(2 372 28)
Board of Review	1 445 00	1 231 06	(213 94)
Treasurer	8 214 00	8 000 55	(213 45)
Building and grounds	12 860 00	1 185 96	(11 674 04)
Cemetery	4 055 00	1 659 58	(2 395 42)
Public safety:			
Fire protection	10 200 00	10 165 53	(34 47)
Ambulance	10 000 00	9 883 56	(116 44)
Public works:			
Highways and streets	1 000 00	1 000 00	-
Capital outlay	<u>-</u>	<u>1 276 00</u>	<u>1 276 00</u>
Total expenditures	<u>80 229 00</u>	<u>59 339 45</u>	<u>(20 889 55)</u>
Excess (deficiency) of revenues over expenditures	(26 467 00)	13 335 77	39 802 77
Fund balance, April 1	<u>26 467 00</u>	<u>122 212 66</u>	<u>95 745 66</u>
Fund Balance, March 31	<u>-</u>	<u>135 548 43</u>	<u>135 548 43</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Allis, Presque Isle County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Allis. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.



TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14, with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.0000 mills and the taxable value was \$17,225,659.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments (continued)

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>133 121 86</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>33 151 77</u>
Total Deposits	<u>133 151 77</u>

The Township of North Allis did not have any investments as of March 31, 2004.

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and improvements	25 539 45	-	-	25 539 45
Buildings and improvements	10 656 00	-	-	10 656 00
Equipment	<u>5 479 00</u>	<u>1 276 00</u>	<u>-</u>	<u>6 755 00</u>
Totals	<u>41 674 45</u>	<u>1 276 00</u>	<u>-</u>	<u>42 950 45</u>

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>221 80</u>	Current Tax Collection	<u>221 80</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Pension Plan

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes 6% of each qualified employee's annual salary to the plan. Each qualified employee additionally contributes 6% of gross to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$1,068.30.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of North Allis does not issue building permits. Building permits are issued by the County of Presque Isle.

Note 9 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 1

Township Board:

Salaries and per diem	2 825 00
Payroll taxes	40 95
Pension	169 50
Community relations	1 843 69
Mileage	51 00
Printing and publishing	127 75
Insurance	<u>3 808 00</u>
	<u>8 865 89</u>

Supervisor:

Salary	4 800 00
Payroll taxes	69 60
Pension	<u>288 00</u>
	<u>5 157 60</u>

Elections:

Supplies	<u>36 00</u>
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Assessor:

Contracted services	5 015 00
Supplies	<u>315 00</u>
	<u>5 330 00</u>

Clerk:

Salary	4 950 00
Payroll taxes	77 98
Pension	291 00
Supplies	170 94
Mileage	37 80
Miscellaneous	<u>20 00</u>
	<u>5 547 72</u>

Board of Review:

Wages	1 080 00
Payroll taxes	82 62
Miscellaneous	<u>68 44</u>
	<u>1 231 06</u>

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 2

Treasurer:	
Wages	5 430 00
Payroll taxes	84 93
Supplies	1 686 03
Mileage	18 00
Pension	319 80
Miscellaneous	461 79
	<u>8 000 55</u>
Building and grounds:	
Supplies	189 18
Utilities	410 05
Repairs and maintenance	586 73
	<u>1 185 96</u>
Cemetery:	
Salary	600 00
Payroll taxes	45 90
Miscellaneous	1 013 68
	<u>1 659 58</u>
Fire protection:	
Contracted services	10 165 53
	<u>10 165 53</u>
Ambulance	9 883 56
	<u>9 883 56</u>
Highways and streets:	
Repairs and maintenance	1 000 00
	<u>1 000 00</u>
Capital outlay	1 276 00
	<u>1 276 00</u>
Total Expenditures	<u>59 339 45</u>

TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>102 49</u>	<u>400 091 96</u>	<u>399 972 65</u>	<u>221 80</u>
Total Assets	<u>102 49</u>	<u>400 091 96</u>	<u>399 972 65</u>	<u>221 80</u>
<u>Liabilities</u>				
Due to other funds	<u>102 49</u>	<u>19 309 97</u>	<u>19 190 66</u>	<u>221 80</u>
Due to other units	<u>-</u>	<u>380 781 99</u>	<u>380 781 99</u>	<u>-</u>
Total Liabilities	<u>102 49</u>	<u>400 091 96</u>	<u>399 972 65</u>	<u>221 80</u>



TOWNSHIP OF NORTH ALLIS  
Presque Isle County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year Ended March 31, 2004

EXHIBIT F

Cash on hand and in bank – beginning of year	<u>102 49</u>
Cash receipts:	
Property tax	400 010 15
Interest	<u>81 81</u>
Total cash receipts	<u>400 091 96</u>
Total beginning balance and cash receipts	<u>400 194 45</u>
Cash disbursements:	
Township General Fund	19 190 66
Presque Isle County	215 729 14
Onaway Area School District	164 795 57
Refunds	<u>257 28</u>
Total cash disbursements	<u>399 972 65</u>
Cash on Hand and in Bank – End of Year	<u><u>221 80</u></u>

# CAMPBELL, KUSTERER & CO., P.C.

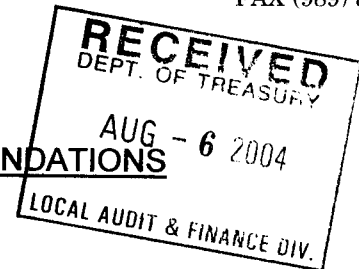
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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



July 19, 2004

To the Township Board  
Township of North Allis  
Presque Isle County, Michigan

We have audited the financial statements of the Township of North Allis, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of North Allis in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
Township of North Allis  
Presque Isle County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board  
Township of North Allis  
Presque Isle County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of North Allis will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants